

**Testimony Presented to the  
Finance, Revenue and Bonding Committee of the Connecticut General Assembly**

**Monday, March 9, 2015**

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**Governor's S.B. No. 946  
An Act Concerning Revenue Items to Implement the Governor's Budget**

Good afternoon Senator Fonfara, Representative Berger, Senator Leone, Representative Lemar, Senator Frantz, Representative Davis, members of the Finance, Revenue and Bonding Committee.

I'm Paul Pescatello, here today as Chair of the Connecticut Bioscience Growth Council.

I am also President/CEO of the New England Biotechnology Association and Chair of We Work for Health Connecticut.

The Connecticut Bioscience Growth Council is a committee of the Connecticut Business and Industry Association's biotech and biopharma members.

The Bioscience Growth Council was formed as a means to foster collaboration both among Connecticut biotech and biopharma companies themselves and, just as importantly, *with* our state. As you know, Connecticut – *this* General Assembly – has chosen wisely to invest in the life sciences as a foundation for Connecticut's 21<sup>st</sup> century economy and as a means to create a broad spectrum of jobs.

The strides we have made in regenerative medicine and stem cell research, and the research and economic development already being accomplished by Jackson Labs, names only a few of the dividends generated by this Connecticut investment.

I am here to speak about the proposed budget as described in Bill No. 946, An Act Concerning Revenue Items to Implement the Governor's Budget.

On behalf of the cluster of Connecticut life sciences companies and organizations we have worked so hard to build and have invested so much hope for the future, I urge you not to implement the budget proposals as they would affect research and development and net operating loss tax policy.

You will hear from Dr. Glenn Schulman of Achillion Pharmaceuticals—his company being very representative of biopharma companies across Connecticut—who will talk about his company's R&D and how it would be negatively and directly affected by the proposed budget. You will also hear from my CBIA colleague, Bonnie Stewart, who will testify as to the broader and also negative impact the proposed budget would have on Connecticut business generally.

I will use my time before you to focus on how we build—nurture—Connecticut life sciences, and how the budget proposals before you are deeply counterproductive to that end.

Biotech and biopharma companies are about research and development; they are *defined* by research and development.

It takes approximately \$1.5 billion and at least a dozen years to bring a new medicine or medical device from concept to working concept, through early clinical development and then large clinical trials, to final Food and Drug Administration approval for use by patients.

Each new medicine R&D project creates valuable knowledge and spurs innovation, but only about one in 10,000 will become a Food and Drug Administration-approved medicine or device.

This research and development profile is in stark contrast to other industries. For example, a software application for a mobile device can be developed in less than a year for tens of thousands of dollars; not, again, as will the life sciences, over a decade and billions of dollars.

It is critical that biopharma companies be able to use, to balance, their investments *without* returns – medicines in development – against returns from approved products – medicines on pharmacy shelves.

If we in Connecticut want the biopharma headquarters and their laboratories, and the jobs that go with those headquarters and labs, we must show these companies we understand their business model and value their huge research and development investments.

Unfortunately, the proposed budget would indicate just the opposite—that either we don’t understand or don’t care about the huge long-term investment decisions companies have already made. Bear in mind that R&D and NOL credits are for research and investments already incurred; already paid for.

Capping research and development credits at 35% of their value for 2015, 45% of their value for 2017 and at 60% of their value in the years thereafter – and bringing use of net operating losses down to 50% of their value – sends precisely the wrong message to our existing base of biotechs and biopharmas and, of course, to companies we hope to recruit to Connecticut.

It sends a message that our incentives cannot be counted on, our policies are inconsistent, and our stated rates are really just labels only loosely related to reality – 35% is the new 100%.

I would underscore that Massachusetts’—Connecticut’s most formidable competitor in building a biopharma cluster and attracting biopharma companies—R&D tax credit is marketed and is in fact a permanent feature of the Massachusetts tax code. It is my understanding that the stated rate of the Massachusetts R&D tax credit is not diminished by separate formulas elsewhere in the Massachusetts tax code or budget legislation. It can be used to reduce a corporation’s tax to the Massachusetts minimum corporate tax, \$456.

Of course, if this proposed budget were to become law it would not cause an immediate exodus from Connecticut. But it would almost immediately slow R&D projects and slow the development of treatments and cures. Funds reallocated to state tax coffers are scientists and lab technicians and clinical trial administrators not hired.

Most dramatically, budget proposals such as those before you send a chilling message to start-up companies. They cause founding scientists and the venture investors who fund them to recalibrate the Connecticut business equation and reassess their plans. Where do we start up for business? In Connecticut,

with R&D policy in play and seeming to be going in the wrong direction, or to competing locations, especially Boston-Cambridge, San Diego and San Francisco?

I urge you to look closely at this proposed budget and avoid taking action that would reduce research and development in particular and investment generally. In the very short-term cutting R&D tax credits and reducing the NOL might raise some revenue, but long term it would surely erode our tax base and derail our strategy to build a new jobs base around companies heavily invested in research and development.

I would be happy to answer any questions you may have or expand upon any points made in my testimony.

Thank you.